

SENATE FISCAL AGENCY MEMORANDUM

DATE: January 9, 2008

TO: Members of the Michigan Senate

FROM: Jessica Runnels, Fiscal Analyst

RE: Hunting and Fishing License Revenue

At a hearing on December 11, 2007, the Director of the Department of Natural Resources, Rebecca Humphries, stated that there would be a balance of approximately \$10.1 million in the Game and Fish Protection Fund at the end of fiscal year (FY) 2006-07. This balance would be sufficient to cover the Department of Natural Resources' (DNR's) appropriation from this Fund for FY 2007-08. This was surprising news since the DNR, the Governor, and many conservation groups had spent the previous 10 months promoting an increase to hunting and fishing license fees, the revenue from which is deposited into the Game and Fish Protection Fund. This raises the questions of where the money came from and what it means for FY 2007-08 and future fiscal years.

Budget Reductions and Lapses

During FY 2006-07, actual expenditures from the Game and Fish Protection Fund were \$7.9 million less than the appropriated amount. The full appropriation was \$66.4 million, although the DNR never intended to spend the entire amount and internally authorized a lower level of expenditure. As Table 1 shows, the initial revenue estimate was enough to cover the full appropriation, but the DNR planned to implement or continue program reductions of about \$3.8 million and spend only \$62.7 million in FY 2006-07, closing the year with a balance of \$3.9 million. An ending balance of that amount would have represented 6.7% of the annual revenue.

By the end of the year, the DNR had received additional revenue and additional reductions had been made. Collections from license sales and returns on investments were about \$2.0 million (3.4%) higher than initially estimated. After planning to spend \$3.8 million less than the appropriated amount, in the end the DNR spent \$7.9 million less than appropriated. In other words, the DNR spent only 88.1% of the amount from the Game and Fish Protection Fund that it was expected to spend and lapsed 11.9%. In comparison, the DNR lapsed 2.8% of its appropriation from the Game and Fish Protection Fund in FY 2005-06 and 1.4% of statewide appropriations from the State General Fund lapsed at the end of FY 2006-07.

Due to the significant spending reductions and increase revenue, the year-end balance in the Game and Fish Protection Fund is \$10.1 million, or 16.9% of the revenue collected. The DNR had sufficient revenue and a Fund balance to fully support the appropriation in FY 2006-07, but spent at a level significantly lower than the appropriation. One-time retirement savings are responsible for \$1.5 million of the additional year-end balance. Executive directives severely curtailed spending, creating savings and reductions in travel, supplies, equipment, training, and other areas. The DNR made further program reductions to avoid overexpenditures. These reductions were the continuation of cutbacks the DNR implemented in previous fiscal years in an effort to spread an anticipated deficit over multiple years and postpone the request for

revenue increases. These reductions were carried out internally and without a downward change to the appropriation.

Table 1

Game and Fish Protection Fund FY 2006-07 Balance Estimate			
	Initial Estimate	Final Amount	Change from Initial Estimate
Revenue:			
Beginning balance	\$8,491,000	\$8,491,000	\$0
FY 2006-07 revenue	<u>58,119,900</u>	<u>60,112,200</u>	<u>1,992,300</u>
Total revenue	\$66,610,900	\$68,603,200	\$1,992,300
Expenditures:			
Authorized spending	\$62,735,300	\$58,468,800	(\$4,266,500)
Year-end balance	\$3,875,600	\$10,134,400	\$6,258,800

Source: Department of Natural Resources

The savings of \$7.9 million fall into three categories: one-time retirement savings, lapses, and program reductions, as shown in [Table 2](#). It is the program reductions that have an impact on the natural resources of the State and comprise 62.0% of the total savings amount.

Table 2

Game and Fish Protection Fund FY 2006-07 Appropriations and Expenditures	
Program	Savings
Appropriations	\$66,374,000
Actual expenditures	<u>58,468,800</u>
Difference	\$7,905,200
Reductions and savings:	
Wildlife reductions	\$824,400
Fisheries reductions	2,496,800
Law Enforcement reductions	721,600
Administration reductions	855,000
Retirement savings	1,485,700
Prior year lapses	374,200
Work project lapses	648,200
PILT lapses	<u>499,300</u>
Total Savings	\$7,905,200

Source: Department of Natural Resources

The reductions of \$824,400 in the Wildlife Division represent 8.1% of its appropriation from the Game and Fish Protection Fund. They included reduced maintenance, repairs, and cleanup at State Game Areas since seasonal workers were not hired to complete these activities. Significant reductions were made in the development of species management plans for deer and bears, as well as habitat management and restoration. Surveys of wildlife and boundaries and public outreach were diminished. These reductions affected recreational opportunities, hunting, and the abundance of resources.

The reduction of \$721,600 in Law Enforcement (4.1% of its appropriation from this Fund) decreased patrolling by conservation officers by 19,000 hours and officers traveled 163,000 fewer miles than in the previous year. This means that wildlife populations and habitat were subject to greater poaching and destruction since the threat of enforcement was diminished. Officers were less able to provide backup to each other or to local law enforcement, especially in rural areas. Monitoring for diseases and various law violations was foregone.

The reduction of \$2,496,800 in Fisheries represents 13.9% of the amount appropriated from the Fund for this Division. It also is almost one-third of the total reduction from the Game and Fish Protection Fund in FY 2006-07. Reductions included reduced staffing at the six State fish hatcheries, less surveying of fish populations, and diminished equipment and maintenance support. This led to reduced levels of fish rearing and stocking. Coastal brook trout production was eliminated and coho and Atlantic salmon production was severely scaled back. In addition, research partnerships with universities were reduced, seasonal staff was not hired in field operations, essential equipment purchases were delayed, and training programs were reduced. Fish habitat projects and dam removals on the AuSable River and inland fisheries were canceled. The significant reductions in the Fisheries programs affected the recreational and commercial opportunities in the State, along with diminishing the quality of the State's waterways.

Implications for FY 2007-08

The appropriation from the Game and Fish Protection Fund for FY 2007-08 is \$66.8 million while the annual revenue will be about \$60.0 million. The appropriation sets the expectation that the DNR will be operating a program at the level of \$66.8 million. The Fund balance from the previous fiscal year is enough to cover estimated expenditures, but the structural problem with this Fund, that revenue is less than appropriations, remains unaddressed. This also assumes that the DNR does not mitigate the anticipated deficit of FY 2008-09 by continuing the program reductions it has implemented in the past few years.

FY 2008-09 and Beyond

If the current Fund balance is used to cover all the appropriations for FY 2007-08, the DNR estimates that it has a \$12.0 million deficit pending for FY 2008-09 and a \$15.0 million deficit for FY 2009-10. The structural problem of having expenditures that exceed annual revenue still needs to be addressed for future fiscal years. Funding for game and fish programs now depends on flat fees assessed on a declining number of hunters and anglers. Just to maintain programs at current levels requires increasing revenue to cover rising expenditures due to inflation, growing utility costs, and collective bargaining agreements. The current model for funding these programs is insufficient to meet needs and expectations. There are three options available: increase hunting and fishing fees to meet the appropriation and expected expenditures, decrease expenditures through program reductions, or find an alternative method of supporting game and fish programs in the State.

Please contact me if you have questions.

/lms

c: Gary S. Olson, Director
Ellen Jeffries, Deputy Director
Bill Bowerman, Chief Analyst